

Message Text

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C O N F I D E N T I A L TOKYO 04468

NODIS

FOR HOLBROOKE, EA, TO PASS TO PRESIDENT, SECRETARY,

SECRETARY BLUMENTHAL AND AMBASSADOR STRAUSS FROM AMBASSADOR

E.O. 11652: GDS

TAGS: EFIN, ETRD, JA, US

SUBJECT: JAPANESE CONCERNS ABOUT CURRENCY FLUCTUATIONS

1. I THOUGHT I SHOULD LET YOU KNOW ABOUT THE SENSE OF
NEAR PANIC WHICH HAS DEVELOPED HERE AS A RESULT OF THE
MOST RECENT APPRECIATION OF THE YEN. I AM SENDING
THIS MESSAGE TO STRESS JUST HOW HIGH THE STAKES HAVE
BECOME. WE ARE SENDING LATER TODAY A MESSAGE FOR GENERAL
DISTRIBUTION WHICH LAYS OUT VARIOUS RECENT DEVELOPMENTS
THAT SUPPORT OUR FEELINGS.

2. FUKUDA HAS BEEN UNDER HEAVY CRITICISM FOR SOME TIME
BECAUSE OF HIS INABILITY TO LIVE UP TO THE PUBLIC'S
EXPECTATIONS THAT HE WOULD SOLVE JAPAN'S ECONOMIC
PROBLEMS. NOW YEN APPRECIATION, IN THE EYES OF MANY AT
LEAST, THREATENS TO ABORT THE PROSPECTS FOR ECONOMIC
RECOVERY "AGAIN" AND HAS ADDED SUBSTANTIALLY TO THE
VOLUME AND INTENSITY OF BUSINESS CRITICISM OF THE LDP
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AND FUKUDA PERSONALLY.

3. OUR RECENT MONETARY AGREEMENT WITH THE GERMANS HAS
MADE FUKUDA'S POSITION EVEN MORE DIFFICULT. DESPITE OUR
PRIOR CONSULTATIONS WITH THE JAPANESE, AN UNMISTAKABLE
APPEARANCE IS LEFT THAT WE ATTACH MORE IMPORTANCE TO
COOPERATION WITH THE GERMANS. THIS IS A BITTER PILL

FOR FUKUDA TO SWALLOW, WITH HIS HIGH PROFILE,
"COOPERATE-WITH-THE-U.S." POSTURE.

4. FUKUDA, MORE THAN HIS RECENT PREDECESSORS, IS HELD RESPONSIBLE BECAUSE OF HIS REPUTATION AS AN ECONOMIC POLICY EXPERT. POLITICALLY, HE MUST DO SOMETHING TO SHOW HE CAN LEAD IN THIS AREA. IF HE DOES NOT PRODUCE, PRESSURE WILL BUILD UP FOR SOMEONE ELSE TO MAKE THE EFFORT. IN THIS CONNECTION, WE NOTE THAT OHIRA HAS ALREADY STAKED OUT A POSITION FAVORING A RETURN TO FIXED EXCHANGE RATES.

5. YOU WILL HAVE SEEN THE REPORTS ABOUT THE THOUGHT OF SENDING MIYAZAWA OR USHIBA TO THE U.S. FOR DISCUSSIONS, WHICH THEY WISELY BACKED OFF FROM BECAUSE OF WHAT SUCH A MISSION COULD DO TO THE MARKETS. I UNDERSTAND FUKUDA HAS ALSO BEEN THINKING ABOUT A HOT-LINE EXCHANGE WITH THE PRESIDENT.

6. I BELIEVE IT IS IN OUR INTEREST TO DO SOMETHING TO HELP DEAL WITH THESE PRESSURES AND TO DIRECT THEM CONSTRUCTIVELY. THE SOONER WE FOCUS ON HOW BEST TO DO SO, THE BETTER ARE THE PROSPECTS FOR LIMITING THE POLITICAL DAMAGE.

7. I AM HESITANT TO SUGGEST SPECIFIC COURSES
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OF ACTION, BUT THE BASIC REQUIREMENT IS THAT WE DEMONSTRATE PUBLICLY AND CONVINCINGLY THE IMPORTANCE WE ATTACH TO INTERNATIONAL FINANCIAL COOPERATION WITH THE JAPANESE.

8. THE PRESIDENT MIGHT SEND A HOT-LINE MESSAGE FUKUDA COULD USE PUBLICLY OR AUTHORIZE ME TO TELL FUKUDA A MESSAGE FROM HIM WOULD BE WELL RECEIVED. I THINK WE NEED SOMETHING SOON, EVEN BEFORE THE SCHULTZE VISIT. MANSFIELD

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